UNITED NATIONS

World Chronicle

PROGRAMME: No. 675, recorded 17 September 1997

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WORLD INVESTMENT REPORT

UNCTAD, the United Nations Conference on Trade and Development, publishes an annual comprehensive study on the work of Transnational Corporations – the "World Investment Report". This year, the report highlights international trade, foreign investment and competition. Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations elaborates on the economic, social and political impact of the activities of transnational corporations on the regional, national and international levels.

WORLD CHRONICLE is produced by the Media Division, Department of Public Information, United Nations, New York, NY 10017, U.S.A.

Duration: 28:00"
Executive Producer: Kamil Taha
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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues. Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**.

In today's market economy, transnational corporations play an ever-increasing role. Each year, UNCTAD, the United Nations Conference on Trade and Development, publishes a comprehensive report on world investment. This year the report focuses on the relationships of transnational corporations to market structure and competition policy. What is the impact of the activities of transnational corporations on the global economy, and how do they affect the economies of third world countries?

With us today to discuss such issues is the team leader who prepared this year's report. He is Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. Joining me to talk with Mr. Sauvant are Bhaskar Menon of the *International Documents Review* and Robert Reid of the Associated Press.

Mr. Sauvant, welcome to world chronicle.

SAUVANT: Thank you.

LITTLEJOHNS: Mr. Sauvant, just a few years ago transnational corporations were a kind of *bête noire*: it seemed that in the third world they were regarded with great suspicion; they were accused of practically trying to take over whole countries. Why has there been this change of heart about TNCs?

SAUVANT: Well, I think there are a number of reasons which have led to a change of attitude on the part of Governments towards transnational corporations, I think the most important of which is that countries have come to appreciate that, on balance, transnational corporations and foreign direct investment can make a contribution to development in terms of providing various tangible and intangible assets – from capital to technology, to management practices and access to markets – which are important for development. And at the same time countries also feel more confident that they can deal in a way beneficial for them with transnational corporations so that, on balance, the benefits they receive from foreign direct investment far outweigh any costs that may be associated with foreign direct investment.

LITTLEJOHNS: But the size of some of these TNCs is enormous. The largest I believe is Royal Dutch Shell. Now, Royal Dutch Shell probably has more money than several countries put together. Isn't that rather intimidating for developing countries?

SAUVANT: Well, Royal Dutch Shell, as all other transnational corporations, do not have one thing, which is sovereignty, and the aspects, the attributes of sovereignty, which,

after all, allow any country, be it big or small, to, for instance, let Royal Dutch Shell come into the country, to tax the company, and to make sure that, in fact, the company contributes as much as possible to economic development. So there is very often, especially with big companies, a certain element of bargaining involved where both sides have to feel that it is to their benefit to cooperate with each other.

LITTLEJOHNS: Of course, this particular company has come in for a certain amount of criticism for its activities in a country in Africa, which shall remain nameless, where human rights were considered to be rather extensively violated. Is this a common complaint against transnational corporations?

SAUVANT: Not to my knowledge. In most cases, in fact, this is the law of the land, so to speak. Transnational corporations, like any companies, have to abide by the rules and by the laws of the countries in which they operate. And if they don't do so, the country can take actions accordingly.

LITTLEJOHNS: But if they're parties to violations of human rights, I mean, that doesn't say very much for TNCs.

SAUVANT: Well, if they are parties, which is something which remains to be determined, then obviously, like any other party, be it domestic or foreign, one would have to make sure that practices like that do not take place.

MENON: I think, looking at the obverse of the point which Michael made – which is the change in perception of transnational corporations in developing countries, I think – is the change of attitudes in developed countries, where three decades ago transnational corporations were seen as their champions, as representing them in the rest of the world; now there is mounting suspicion and anger, especially from the working people of developed countries, where there is enormous unemployment, where the fear is that transnational corporations will, as Ross Perot put it, there'll be a "giant sucking sound" and jobs will disappear. In this context I think the question of human rights comes up both in the North and in the South. It's not a question of them violating human rights, it's a question of them being not careful about the rights to employment, about the rights of workers, both in developed and in developing countries. How does that whole nexus work out?

SAUVANT: Well, I think you're touching on something which is very important, but what you see is, in a sense, an integral part and, in fact, even a defining part of the broader process of globalization, where firms, in an environment which is increasingly liberal in terms of both the trade regime as well as foreign direct investment regimes, have much more freedom of action in terms of where to locate production facilities. But this freedom of action of course gets more and more under pressure as competition between companies makes it necessary for companies, for instance, to choose the best possible production

location in terms of its overall efficiency. And that might very well mean that a company that has produced certain items in the United States today will have to produce in the future the same item let's say in India, because it is simply cheaper to do that in India and at the same time to serve the global market. So I think what you see there is a phenomenon which we are quite familiar with in the trade area, namely, that you have regional and global markets. You see increasingly also in the production area that national production systems are growing together and that, within that framework, of course, production of entire facilities or certain functions of corporations are increasingly located where in the world it is most efficient to introduce or to produce a particular good or a particular service.

MENON: Could I just -- the reason I raised it, of course your report deals with competition policy. Now, could you say what competition policy is and whether human rights plays any part in it at all?

SAUVANT: Yes. Yes, well, I made reference already to the fact that what we see is an increasing liberalization of Government policies. So that means that statutory barriers to the activities of economic agents – this is not only transnational corporations, but also domestic corporations – are being decreased. Now, the challenge which I think arises out of that is that the benefits which are associated with that are not being nullified by corporate practices, which, through whatever curtails or restrictive business practices or any other type of anti-competitive practices, could prevent increases in efficiencies being –

MENON: What is an anti-competitive practice?

SAUVANT: Anti-competitive practice can be anything from a curtail between companies, for example, saying that we sell only in certain areas or to a certain price; it can mean that a company does not allow its licensee to, for instance, produce a product and export it; or a number of practices like that.

MENON: It doesn't include under-payment of labour?

SAUVANT: No. No, it would not include that. It could include it in a different way, for instance, if you would have under-pricing or cross-subsidization of products on an international scale, so that through private practices of firms and between firms basically the market gets organized in a way which would not allow it to function efficiently. And that's where competition policy comes in. That's where Governments have basically an obligation to ensure the proper functioning of the market. And as far as we are concerned, as far as UNCTAD is concerned – and this is a point which is being made quite strongly in the World Investment Report – it is an integral part of the liberalization of foreign direct investment regimes that you are not only reducing barriers to foreign direct investment, [that you] not only establish standards of treatment for transnational corporations, but you also make sure that the players remain honest, so to speak, that the market keeps functioning.

REID: But that's somewhat easier to say than actually to do in practice, of course. I was wondering, a whole generation of economists around the world, particularly in the third world, have been educated in a philosophy that said that large in-flows of foreign capital threaten the sovereign control of one's national economy. Now these people, as they are rather late in their careers and fairly ranking in ministries, are finding themselves faced with a completely different set of rules. On a practical basis this must create great problems in much of the developing world in being able to fine-tune those policies. I wonder if you've found that to be the experience, and what UNCTAD can do to help.

SAUVANT: Yes. Well, what you see first of all is the easy part, which is to basically liberalize, which means to do away with rules which existed in the past and which the implementation of which was later not that easy – screening, for instance, of foreign direct investment in terms of all sorts of criteria and things like that. So that part, in a sense, may be ideologically difficult for that generation you're talking about to accept, but I think there the point which we made earlier carries the day – namely, that on balance Governments see that it is to their benefit to do so. Now, what becomes difficult, however, is now to put into place in fact a competition policy which is workable. You know, don't forget that in some developed countries it took quite some time until you really had a competition policy that was serious, that was objective, that had teeth and that could actually bite and therefore make sure that markets remain –

MENON: Does competition policy emerge from the corporations themselves? Or does it emerge, does it come from Governments?

SAUVANT: From Governments. This is the role of government, to make sure that competition prevails in the market. In the context of the report, the key interface between foreign direct investment liberalization and competition policy is through the review of mergers and acquisitions. Because that's where, after all, the key variable of foreign direct investment comes in. If a foreign enterprise enters the market, takes over an existing enterprise, that can raise a question: What does that do to the competitive situation in that market? And that is an issue which is increasingly becoming important, because -- and this is another aspect being dealt with in the report – mergers and acquisitions are a key vehicle for transnational corporations to enter foreign markets.

MENON: One of the controversial aspects of this, of course, is the World Trade Organization. But I understand there is a move to make foreign corporations – they would have the same legal status and the same rights and privileges as domestic corporations. Is this a real fear, or a real controversy?

SAUVANT: No. I think what you're referring to is.... There are two things. The first one is a question of national treatment, namely, that, as a rule, the expectation is that

foreign companies, transnational corporations, receive the same treatment as domestic enterprises. And that is *de facto* the case, or *de jure* the case, in practically all countries. That's not the issue. What is the issue is now whether, for instance, a principle like national treatment should be enshrined in a multilateral framework on investment. And discussions have started in the WTO, not on a multilateral framework on investment, per se, but an educative process in the framework of a working group where countries are looking at the issues that are being raised through the globalization of foreign direct investment and whether in fact the effects on development and competition and on national rule-making warrant that perhaps one should look into something like an international agreement.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. Robert Reid.

REID: To move to something a little more specific in the report, the report notes that in Asian less-developed countries, particularly in Southeast Asia, national economies are now beginning to receive significant amounts of capital in-flows from other formerly less-developed countries, for instance, investments by the Singaporeans, et cetera.

SAUVANT: Or still less-developed countries.

REID: And I believe the report also notes that part of this is just the convenience of physical proximity. But yet in Europe that doesn't seem entirely to be the case, because so much FDI money from Western Europe seems to be going far afield across the Pacific to Asia or to Latin America or even the United States, but not so much to Eastern Europe, and I was wondering if you could explain what happened there.

SAUVANT: Well, there are a couple of very interesting phenomena. To start with the last aspect first, the main determinant for attracting foreign direct investment is still the size and the growth of a given market. And from that point of view it is not surprising that actually most of European investment goes back to the United States and vice versa. It's the same thing with trade. Most trade takes place among the most-developed countries. However, of course, there's also investment, which is very much cost sensitive. And what you have seen in Asia is actually a very interesting process which didn't start with the developing countries but which actually started with Japan and the United States sometime back in the '60s and '70s, when certain production activities in the United States and in particular in Japan became too expensive to be carried out in Japan and were actually moved into the first tier of the "tiger" countries. And as these countries, partly through foreign direct investment, developed, they got into the same situation, namely, that labour costs and other costs increased, and they found that for their own companies to remain competitive internationally they had to invest in the future in the least-developed countries in that region.

It's sort of the flying geese model of economic development. And what you see now is precisely that within Asia. Within Asia some 40 per cent of all foreign direct investment inflows into the developing countries of the region actually come from other developing countries of the region, and that Europe, the United States and Japan actually are far behind. And that points to something else which we highlight in the report, that, in fact, foreign direct investment – and it's also partly an answer to your earlier question – foreign direct investment is not only any more the province of United States companies and maybe British companies, but increasingly also of third world companies. And, in fact, if you look at the share of developing countries in world out-flows of investment, it used to be something like 2 per cent in the '80s; it's now 15 per cent, and in a region like Asia, which is, after all, a very dynamic region, it can reach 40 per cent. So you have, in fact, a democratization, if you want – although it's not an appropriate term for this particular situation, in the sense that more foreign direct investment is coming from countries which in the past were not outward investors, and also, incidentally, more countries are attracting investment.

MENON: Two things. The total number of corporations involved in this is actually – has remained more or less small.

SAUVANT: No.

MENON: No? But your report says about 25 corporations account for over half of FDI flows –

SAUVANT: Correct, right.

MENON: – and that this has remained constant over the last four decades.

SAUVANT: Yes. That's all correct, but there is no contradiction in it. We have estimated that in the case of the United States 25 corporations account for approximately 50 per cent of out-flows. In some other developed countries, incidentally, the degree of concentration is even higher. However, that's a relative figure. At the same time, the actual number of companies that have invested abroad has increased tremendously. For instance, we estimate that in 14 developed countries the number of transnational corporations had increased from something like 7,000 at the end of the '70s, beginning of the '80s, to 27,000 at the beginning of the '90s. And the number of transnational corporations from developing countries is now something like 9,000 to 10,000.

MENON: And an overall figure of 44,000.

SAUVANT: That's right. With an overall figure of 44,000. Now, within that figure, of course, not all companies are equally important, and those that were big in the past, as you pointed out, remained big. Yes.

LITTLEJOHNS: Mr. Sauvant, you mentioned earlier the Asian "tigers". Well, there have been some reports recently that seem to suggest that the "tigers" may be losing a few

teeth – Thailand and Malaysia have had problems. What is the UNCTAD evaluation of the situation with these "tigers"?

SAUVANT: Well, to stay within your metaphor, it is, I suppose, if I remember correctly, an integral part of growing up that occasionally you have teething problems. I think this is certainly an occurrence which is not desirable, but I don't think it reflects the underlying fundamentals of the situation in Asian countries. It is part of the adjustment process in the context of a very rapid growth process of the countries involved, some of which have grown at 10 per cent over a number of years, and where in particular certain adjustments have to be made in financial sectors and elsewhere. But I think – and this is certainly something which we also reflect in the report – this is, as far as I'm concerned, a hiccup, to change the metaphor, which incidentally we do not expect to affect very much the foreign direct investment picture. The problems you're referring to are more –

LITTLEJOHNS: Currency I think mainly.

SAUVANT: – currency, portfolio, investment problems –

LITTLEJOHNS: But I mean, all these things are linked.

SAUVANT: Of course they're all linked. But this goes back to the main determinants of foreign direct investment. The underlying and principal determinant is the attractiveness of a country, of a market, in terms of its size, in terms of its growth. And, if anything, indications are that some of the countries in Asia become even more attractive. Look at India, for instance. India has increased its foreign direct investment in-flows from very little to, I think it's now about $3 billion, which is peanuts if you compare it with China, which is $42 billion, which is still – and where the Indian Government is aiming for $10 billion within this year or so. So I think you will see that after a normalization of the situation, certainly as far as the foreign direct investment picture is concerned –

LITTLEJOHNS: The boom will resume.

SAUVANT: – the boom will resume, or continue, actually.

REID: Regarding southeast Asia particularly, do you think to some extent this flow of capital has been facilitated by the unique nature of the economies there, where you have Chinese émigré communities which in each country play a very significant role in national economies – Lucio Tan in the Philippines, others throughout Thailand, et cetera, and in fact what they're doing is they're moving money around through their own corporations, or from cousin to cousin to cousin.

SAUVANT: I'm sure that some of that is taking place, and in fact we have looked specifically into the question of round-tripping foreign direct investment funds from China via Hong Kong to China to take advantage of certain tax breaks, and there may be something happening in the neighbourhood of, whatever, $3, $4 $5 billion, but if you look at the total

picture of $42 billion, that is certainly not the case. So certainly yes, it takes place, but I think what is much more important is the underlying dynamic in these countries, which makes it extremely attractive for companies from everywhere in the world, not only in the region, to invest there.

MENON: The report says that in a situation of intense competition the Governments, the regulatory authorities, must cooperate to create equitable competition policies. Now, does this revive the old idea of a code of conduct? Is this what you're talking about?

SAUVANT: No. I think what that – it deals with a fairly, in a sense, narrow, in substance, broad area, namely that increasingly it becomes apparent, and is almost by definition the case, that in a globalizing world economy that competition authorities in certain areas simply have to cooperate in order to be able to handle a situation –

MENON: But if they're competing, if the countries themselves are competing for foreign investment, is it realistic to expect the authorities to cooperate?

SAUVANT: Yes, I think most definitely so, because the ultimate objective for competing for foreign direct investment and for having a strong competition policy is in both cases to make sure that the welfare of the countries involved is indeed served. And in that sense if incoming foreign direct investment could lead to concentration in the market, which could lead to higher prices or to less quality products or whatever, and ultimately is to the disadvantage of the country, then it is precisely the task of the country to deal with this situation. But increasingly that requires that you get information elsewhere. I'll give you an example. If company A, let's leave it unnamed, takes over another company, Company A let's say has foreign affiliates in 20 countries, and it takes over another company, B, which also has foreign affiliates in whatever, 30 countries, the immediate question arises that maybe certain foreign affiliates that were competing in a market are now under the same governance, so to speak, belong to the same company, do no longer compete with each other. Is that in the interest of the countries involved? What does it create in terms of competition problems?

MENON: Well, what can you do in a situation like that?

SAUVANT: That's precisely the question that arises. You can, for instance, ask, which actually happens, you can raise the question, is that merger permissable or not? And we have some recent cases where precisely this question arose. You can, for instance, say yes, the merger is permissable, but, for instance, you have to divest certain aspects of your business because the degree of concentration is too high. But it does also raise some other things, because as production is being internationalized, there are also new efficiencies emerging. After all, it is more efficient to work in this way than domestically. And that has to be taken into account when you actually say what are the costs and benefits of a merger.

LITTLEJOHNS: Mr. Sauvant, we have only a minute or so left. Papa Menon mentioned the World Trade Organization, which is kind of a competitor for UNCTAD, and – or so it's perceived, at any rate – and the United States has suggested that perhaps UNCTAD has exhausted its usefulness. I'll give you an opportunity to respond to that.

SAUVANT: If that suggestion ever existed, it was a very old suggestion, because during our UNCTAD conference last year, the United States, as all other countries, participated very constructively in the reform of the UNCTAD system, and in fact that reform was hailed as a model for the UN system as a whole, not only by the participating Governments, but also by the Group of 7. And I think it does reflect that UNCTAD has an important role to play, which, if anything, has become more important because of the challenges posed by globalization.

LITTLEJOHNS: So it's only a few critics in the Congress who have this, what you might call out-dated, idea?

SAUVANT: You have critics everywhere, not only in the Congress, and I think it is always good to have people to watch you carefully so that you stay on your feet.

LITTLEJOHNS: Mr. Sauvant, that's all the time we have. Thank you for being with us on this edition of **World Chronicle**.

Our guest has been Karl Sauvant, Chief of the Research and Policy Analysis Branch of UNCTAD's Division on Transnational Corporations and Investment. He was interviewed by Bhaskar Menon of the International Documents Review and Robert Reid of the Associated Press.

I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

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